

## DIVISION 3. - INVESTMENT POLICY

## FOOTNOTE(S):

--- (5) ---

**Editor's note**—Ord. No. 293, adopted Nov. 6, 1995, did not specifically amend the Code; hence, codification of § 1(1.1—3.7) as Div. 3, §§ 2-113—2-121 was at the discretion of the editor.

## Sec. 2-113. - Definitions.

Unless the context requires otherwise, the terms and phrases used in this division shall have meanings as set forth in this section of this division.

- (1) The term "city" means the City of El Lago, Texas.
- (2) The term "city council" means the city council of the city.
- (3) The term "mayor" means the person elected or appointed to serve as mayor of the city.
- (4) The term "investment officer" means the person currently appointed pursuant to section 2-116 of this division.
- (5) The term "city officials" means the mayor, members of the city council and all officers, employees, and persons and business entities engaged in handling investments for the city.
- (6) The term "employee" means any person employed by the city, but does not include independent contractors or professionals hired by the city as outside consultants.
- (7) The term "pooled fund group" means an internally created fund of the city in which one or more institutional accounts of the city are invested.
- (8) The term "separately invested asset" means an account or fund of the city that is not invested in a pooled fund group.

(Ord. No. 293, §1(1.1, 1.2), 11-6-95; Ord. No. 319, § 1(1.1, 1.2), 12-6-99)

## Sec. 2-114. - Depository designation.

The city will designate one (1) banking institution as its central bank and depository for the city's funds through a process of competitive bidding as required by the provisions of V.T.C.A. Local Government Code Section 105.001 et seq. and shall enter into a depository services contract, for a period not to exceed five (5) years, with such depository bank. The city's depository will be used for all normal banking services including disbursements, deposits, controlled disbursements and safekeeping of securities. Other banking institutions from which the city may purchase certificates of deposit will also be designated after any of said

banking institutions provide their latest audited financial statements to the city. The city's depository services contract shall be reviewed by the city council on an annual basis to ensure that all provisions of state law and of this investment policy are being complied with.

(Ord. No. 293, § 1(2.1), 11-6-95; Ord. No. 319, § 1(2.1), 12-6-99)

#### Sec. 2-115. - Purpose.

This investment policy has been adopted to comply with the Public Funds Investment Act. The purpose of this policy is to:

- (1) Adopt rules and regulations which clearly set forth the city's investment strategy for each of the funds or accounts under its control, emphasize safety of principal and liquidity, and address investment diversification, investment limitations, investment yield and maturity, and the quality and capability of investment management;
- (2) Specify the scope of authority of those officers or employees of the city designated to invest city funds and designate one (1) or more officers or employees of the city to be responsible for the investment of such city funds; and
- (3) Provide for periodic review of the investment of city funds.

(Ord. No. 293, § 1(3.1), 11-6-95; Ord. No. 319, § 1(3.1), 12-6-99)

#### Sec. 2-116. - Investment officer and management.

- (a) The mayor or his designee as approved by city council shall be and is hereby appointed the investment officer for the city. This appointment automatically transfers to each successive mayor. The investment officer is hereby authorized to provide for the deposit, withdrawal, investment, transfer, and management of all funds of the city. The investment officer and the treasurer of the city are responsible for the investment of city funds.
- (b) The investment officer and the treasurer of the city shall attend at least one (1) training session relating to their responsibilities within twelve (12) months after taking office or assuming duties and shall attend an investment training session not less than once in a two-year period and receive not less than ten (10) hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the city council. Training under this subsection must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Public Funds Investment Act.
- (c) The investment officer and the city's treasurer shall have appropriate experience in the investment and reinvestment of public funds. The city also recognizes that it may take advantage of professional investment advice by investing in investment pools.
- (d)

Should the investment officer have a personal business relationship with a business organization offering to engage in an investment transaction with the city, the investment officer shall be required to file a statement with the city disclosing that relationship. For purposes of this investment policy, the investment officer has a personal business relationship with a business organization if:

- (1) The investment officer owns ten (10) percent or more of the voting stock or shares of the business organization or owns five thousand dollars (\$5,000.00) or more of the fair market value of the business organization;
- (2) Funds received by the investment officer from the business organization exceed ten (10) percent of the investment officer's gross income for the previous year; or
- (3) The investment officer has received from the business organization during the previous year investments with a book value of two thousand five hundred dollars (\$2,500.00) or more for the personal account of the investment officer.

(Ord. No. 293, § 1(3.2), 11-6-95; Ord. No. 319, § 1(3.2), 12-6-99)

#### Sec. 2-117. - Authorized investments.

The following types of instruments, and no others are authorized investments for the city:

- (1) Obligations of or guaranteed by the United States or its agencies and instrumentalities not to exceed two (2) years to stated maturity;
- (2) Direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) Certificates of deposit which meet the requirements of Section 2256.010 of the Texas Government Code and do not exceed one (1) year to stated maturity;
- (4) Bankers acceptances which meet the requirements of Section 2256.012 of the Texas Government Code not to exceed two hundred seventy (270) days to stated maturity;
- (5) Commercial paper rated A-1 or P-1 or an equivalent rating by at least two (2) nationally recognized credit rating agencies or one (1) nationally recognized credit rating agency if fully secured by an irrevocable letter of credit from a national or state bank, not to exceed two hundred seventy (270) days to stated maturity;
- (6) Repurchase agreements which meet the requirements of Section 2256.011 of the Texas Government Code;
- (7) No-load money market mutual funds which meet the requirements of Section 2256.014 of the Texas Government Code and are fully insured; and
- (8) Investment pools which meet the requirements of Sections 2256.016 through 2256.019 of the Texas Government Code as authorized by city council as provided therein. City council confirms hereby its prior authorization for city participation in the Texas Local Government Investment Pool.

(Ord. No. 293, § 1(3.3), 11-6-95; Ord. No. 319, § 1(3.3), 12-6-99)

## Sec. 2-118. - General investment principles.

- (a) The investment policy of the city is to invest city funds only in instruments which maintain the principal and liquidity of city funds to the extent necessary for city activities. Yield earned on city funds is a secondary consideration compared to safety of principal and liquidity. After safety of principal and liquidity needs are met, the city may invest in instruments which provide the highest yield, except when yield must be limited to comply with any limitations on the investment of city funds imposed in connection with the issuance of bonds in order to comply with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, or any regulations or rulings pertaining thereto.
- (b) Diversification. The city will continuously attempt to diversify its portfolio to reduce risk. The portion of its investment portfolio invested in direct obligations of the U.S. Government or certificates of deposit insured by the Federal Deposit Insurance Corporation will be diversified in terms of maturity. If the portion of the city's portfolio invested in obligations of federal agencies and instrumentalities exceeds five hundred thousand dollars (\$500,000.00), the city will attempt to invest in instruments issued by more than one agency or instrumentally and in instruments of various maturities. The city will not invest more than five hundred thousand dollars (\$500,000.00) in a certificate of deposit or deposits issued by the same financial institution. The city recognizes that by investing city funds in investment pools, it can diversify its portfolio because each participant in the pool has a pro rata share of a number of instruments.
- (c) Maturity. The city will not invest in an obligation which matures more than two (2) years from the date of purchase.
- (d) Standard of care. All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

(Ord. No. 293, § 1(3.4), 11-6-95; Ord. No. 319, § 1(3.4), 12-6-99)

## Sec. 2-119. - Investment strategies.

Funds in the following city accounts shall be invested by the investment officer as follows:

- (1) *Operations funds.* The operations funds, including all funds containing monies obtained from the Metropolitan Transit Authority of Harris County, Texas ("METRO") and earmarked for specific municipal transportation and related purposes by METRO, are used for the operations and maintenance needs of the city. The highest priority for these accounts are safety of principal and liquidity; when these are met, yield is considered. An amount equal to two (2) months of normal operational costs must be kept extremely liquid for normal uses; the amount in excess of two (2) months of normal operational costs should be kept in investments that may be liquidated easily if the need arises. The city's general principles for diversification and maturity apply to these accounts.

- (2) *Debt service fund.* The debt service fund is used to pay the city's outstanding debt obligations. The highest priority for this account is safety of principal. Since the city knows the amount of its debt service and when it becomes due, investments for this account should be structured so that they match debt service needs. When safety of principal and liquidity to match debt service are assured, yield is considered. Since city funds in this account may not be needed for a year or more, longer-term instruments should be considered, within the general principle for maturity set forth in this investment policy, to increase yield. Since the amount of city funds in this account will probably be quite large, diversification of investments may be necessary and the city's general principle on diversification should be used. Since investment pools are short-term in nature, they would normally be used for city funds in this account only for the time gaps between longer-term investments; however, on some occasions the yield of these funds is higher than longer-term investments, so their use should not be circumscribed.

(Ord. No. 293, § 1(3.5), 11-6-95; Ord. No. 319, § 1(3.5), 12-6-99)

Sec. 2-120. - Notification of parties seeking to sell investments to the city.

- (a) A written copy of this investment policy shall be provided to any person seeking to sell an investment to the city.
- (b) The registered principal of any organization seeking to sell an investment to the city shall execute a written instrument, substantially in the form of Exhibit "A" attached hereto, to the effect that the registered principal has:
- (1) Received and thoroughly reviewed the investment policy of the city; and
  - (2) Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the city and the organization.
- (c) The city may not buy any securities from a person who has not delivered an instrument in the form described in subsection (b).

(Ord. No. 293, § 1(3.6), 11-6-95; Ord. No. 319, § 1(3.6), 12-6-99)

**Editor's note—** Exhibit "A" is not set out at length herein, but is available for examination in the offices of the city.

Sec. 2-121. - Internal management reports; investment transactions; audits and reviews.

- (a) *Submission of written report required.* Not less than quarterly, the investment officer shall prepare and submit to the city a written report of investment transactions for all funds covered by the Public Funds Investment Act for the preceding reporting period.
- (b) *Contents of report.* The report must:
- (1) Describe in detail the investment position of the city on the date of the report;

- (2) Be prepared by the investment officer;
  - (3) Be signed by the investment officer;
  - (4) Contain a summary statement for each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, and ending market value for the period;
  - (5) State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
  - (6) State the maturity date of each separately invested asset that has a maturity date;
  - (7) State the account or fund or pooled fund group for which each individual investment was purchased; and
  - (8) State the compliance of the investment portfolio of the city as it relates to the city's investment strategies, and relevant provisions of the Public Funds Investment Act.
- (c) *Quarterly presentation.* The report shall be presented not less than quarterly to the city within a reasonable time after the end of the period.
- (d) *Settlement of investment transactions.* All city investment transactions, except for those transactions in which city funds are directly invested in investment pools or mutual funds, shall be settled on a delivery versus payment basis.
- (e) *Annual compliance audit.* The city, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the city's established investment policy.
- (f) *Initial and annual review.* The city council has reviewed this investment policy and the investment strategies contained herein and shall review said policy and strategies not less than annually. This review shall be accomplished by the annual adoption of a resolution by the city council stating that the council has reviewed its current investment policy and investment strategies. The resolution shall also reflect any changes made to the investment policy and the investment strategies.

(Ord. No. 293, § 1(3.7), 11-6-95; Ord. No. 319, § 1(3.7—3.10), 12-6-99)